POLAND

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Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP	134,500	135,600	150,031
Real GDP Growth (pct)	6.1	6.9	5.6
GDP by Sector (pct):			
Agriculture	5.9	5.1	N/A
Manufacturing	20.1	20.2	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	3,484	3,507	3,800
Labor Force (000s)	17,064	17,052	N/A
Unemployment Rate (pct)	13.2	10.3	9.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.2	28.8	28.0
Consumer Price Inflation	18.5	13.2	9.5
Exchange Rate (PZL/US$ annual average)			
Official	2.70	3.28	3.53
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) 2/	24.4	27.2	31.4
Exports to U.S. (US$ billions)3/	0.6	0.7	N/A
Total Imports CIF (US$ billions)	32.6	38.5	44.0
Imports from U.S. (US$ billions)3/	0.97	1.2	N/A
Trade Balance (US$ billions)	-8.2	-11.3	-12.6
Balance with U.S. (US$ billions) 3/	0.34	-0.52	N/A
External Public Debt (US$ billions)	40.6	38.5	N/A
Fiscal Deficit/GDP (pct)	3.6	2.8	2.5
Current Account Surplus/Deficit/GDP (pct) 4/	-1.0	-3.1	-3.6
Debt Service Payments/GDP (pct) 5/	1.9	1.8	N/A

Gold and Foreign Exchange Reserves (US$ billions) 6/	18.0	20.1	27.0
Aid from U.S. (US$ millions) 7/	66	52.7	58.7
Aid from Other Sources (US$ millions)	419	N/A	N/A

1/ 1998 figures are Polish Government estimates as of October 1998, unless otherwise noted.

2/ Polish Government trade figures, which include direct trade only. U.S. data includes transshipments via third countries.

3/ U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

4/ Including estimated unrecorded trade.

5/ Debt service includes paid interest and principal.

6/ Data available through August 1998.

7/ U.S. Government estimate.

1. General Policy Framework

Since the fall of communism in 1989, Poland has pursued a policy of liberalizing trade, investment and capital flow measures. Today, it stands out as one of the most successful and open transition economies. Poland is expected to post its fifth year of GDP growth above five percent in 1998; the government projects economic growth of around five percent in 1999. The privatization of small and medium state-owned companies and a liberal law on establishment allowed for the rapid development of a vibrant private sector responsible for more than two-thirds of economic activity. In contrast, Poland's large agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The shadow "gray economy" was estimated to generate around 15 percent of GDP in 1998.

Government Priorities: Poland, which is a member of the WTO, has set membership in the European Union (EU) as one of its highest priorities. As a step in achieving this goal, the government signed an association agreement with the EU in 1991 and began negotiations on joining the EU in 1998. The accession process will affect in some way almost every aspect of the government's economic policies. Each ministry has an EU integration department. The Association Agreement has created a growing tariff differential between EU products and U.S. products. In addition, Poland has agreed to liberalization of its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and bilateral agreements. Poland has concluded bilateral free trade agreements with Estonia, Latvia, Lithuania, Croatia, and Israel. Negotiations are underway to sign such an agreement with Turkey. Poland has also discussed ways to improve bilateral economic relations with its eastern neighbors, Russia, Ukraine, and Belarus, but these talks have not resulted in preferential or free trade agreements.

Fiscal Policy: The government seeks to reduce the budget deficit in 1999 to 2.15 percent of GDP from 2.8 percent in 1998. Further, it aims to eliminate the deficit altogether by 2003. For 1998 and 1999, the government intends to finance the deficit from two principal sources: privatization revenues and the domestic non-banking private sector (e.g., insurance companies and pension funds). The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. Generous social programs (pensions, disability, unemployment and welfare) and debt service obligations constitute the heaviest burdens on the budget. In 1999, the government will introduce a pension reform program, which after several years should gradually reduce the cost of social security to the government.

Monetary Policy: The independent Monetary Policy Council (MPC) sets monetary policy, which the NBP implements. The MPC has announced that its primary goal is to reduce the rate of inflation and, over time, to attain price stability. For 1999, the MPC has set the goal of an inflation rate based on prices of consumer goods and services of between 8.0 and 8.5

percent. In the medium-term, the MPC has established the goal of an inflation rate below 4.0 percent by 2003. The NBP's principal tools have been reserve requirements, basic interest rates, and open market operations. Tight money policies have contributed to a reduction in inflation from 600 percent in 1990 to below 10 percent in 1998. In an effort to slow the growth in domestic demand for credits, the NBP raised real interest rates to around 10 percent, which has attracted substantial investment from foreign portfolio investors. These portfolio inflows combined with foreign direct investment have caused the Polish Zloty to appreciate in real terms. In 1998, the Polish Zloty appreciated in real terms by around ten percent compared with the U.S. dollar, which has made U.S. exports to Poland more competitive. Poland anticipates eventually joining the European Monetary Union (EMU), but beforehand for at least two years, it intends to become a part of the European Exchange Rate Mechanism (ERM2).

2. Exchange Rate Policies

In 1991, the NBP began managing the exchange rate through a crawling peg mechanism against a basket of reserve currencies (in percentage terms: U.S. Dollar - 45; German Mark - 35; Pound Sterling - 10; and French and Swiss Francs - 5 each). Starting in 1999, the basket will be composed of 55 percent the euro and 45 percent the U.S. Dollar. The MPC now depreciates the central parity rate for the zloty by 0.5 percent per month, but allows the currency to float within a 12.5 percent band around that central parity rate.

Poland has followed a policy of liberalizing exchange rate controls, achieving IMF Article VIII current account convertibility in 1995. In 1996, the government eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys. As part of the OECD accession process, Poland liberalized rules governing capital account transactions and in 1997 removed nearly all limits on capital account outflows by Polish citizens. The government expects to enact a new foreign exchange law by the end of 1998. Under this new law, the zloty will become fully convertible in current account transactions, payments and transfers. The new regime will also liberalize capital flows to and out of Poland, although certain restrictions will remain as regards Polish investments in countries which are not members of OECD and with which Poland has not concluded relevant bilateral agreements (permits will be required from the central bank).

3. Structural Policies

Prices: Most subsidies and controls on the prices of goods were eliminated as part of Poland's 1990 "big bang" shock therapy. However, price controls on fuel, public transportation, and utilities continue. The government has gradually allowed prices to rise with the goal of eventually eliminating price controls. New regulatory bodies will play a central role in setting prices in the energy and telecommunications sectors. The government provides price support for some agricultural products.

Taxes: Poland introduced a Value-Added Tax (VAT) in 1993. In 1998 the Polish Parliament voted to reduce the corporate income tax rate from 36 percent to 34 percent in 1999. Polish law has established special economic zones, which provide foreign investors with substantial tax holidays. Personal income tax rates range from 19 to 40 percent. U.S. investors have complained about inconsistent tax administration.

Regulatory Policies: The primary difficulties concern product certification standards (below) and regulation of telecommunications in favor of the state-owned telephone company.

4. Debt Management Policies

Poland's foreign debt situation has dramatically improved since its default in the 1980s. Rescheduling agreements with the Paris Club (1991) and the London Club of commercial banks (1994), reduced Poland's debt by nearly half ($23 billion in net present value terms). At the end of 1998, Poland's total official foreign debt was $34 billion, including $25 billion to the Paris Club, $6 billion in Brady bonds (London Club), $2.5 billion to international financial institutions (the World Bank, the EBRD and BIS), and $0.8 billion in Rebounds and Yankee bonds. The government's foreign debt service for 1998 amounted to $1.1 billion, which equals three percent of exports and 0.7 percent of GDP. Moreover, the private sector has an estimated $10 to $12 billion in foreign debt as of the end of 1998. Poland prepaid all of its outstanding IMF drawings in 1995. Total state debt (foreign and domestic) shrank to 44 percent of GDP by the end of 1998.

In 1995, Poland received an investment grade rating from various rating agencies and returned to international capital markets with a $250 million Eurobond flotation. As of the end of 1998, Poland has investment grade ratings from the leading rating agencies: a BBB- rating from Standard and Poor's; a BAA3 rating from Moody's; and a BBB rating from IBCA. A few Polish cities (e.g., Krakow and Lodz) also have obtained good credit ratings.

5. Aid

The U.S. provided Poland with $58.7 million in aid in 1998. Of this sum, $35 million was SEED Act funds to help Poland's transition to a free market democracy. The remaining $23.7 million was military aid. In addition, in September 1998, Poland qualified for $100 million in loans under the Central European Defense Loan Program.

6. Significant Barriers to U.S. Exports

Tariffs: Many U.S. products, some of which do not compete with Polish goods, face higher tariffs than the same goods coming from the EU, CEFTA states or developing countries.

Some U.S. exporters have complained in particular about the tariff preference received by the EU as a result of Poland's Association Agreement. This preference appears to be particularly disadvantageous for U.S. automobiles, mining equipment, wine, rice, peanut butter, grapefruit and wood products.

Import Licenses: They are required for strategic goods on the Wassenaar dual use and munitions lists. Licenses are also required for beer and wine, fuel, tobacco, dairy products, meat, poultry, semen and embryos. The plant quarantine inspection service issues a mandatory phytosanitary import permit for all imports of live plants, fresh fruits and vegetables into Poland. U.S. grain and oilseed exports to Poland have been hampered by Polish regulations requiring a zero-tolerance for several common weed seeds. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products.

Poland intends to implement regulations on biotechnology and genetically modified organisms on January 1, 1999. These regulations will follow EU norms. Import licenses for dairy cattle genetics have already limited U.S. access to the Polish market.

Services Barriers: While some progress has been made, many barriers remain or have been added, especially in audio-visuals, legal services, financial services, and telecommunications. In November 1997, the government enacted a rigid 50 percent European production quota for all television broadcasters. This action has raised questions about certain liberalization commitments undertaken by Poland upon joining the OECD. Domestic television content quotas remain in effect and a new "independent producer" quota is being considered. A law giving preferential treatment to EU citizen lawyers has gone into effect. In January 1998, a new Banking Law and a new law on the central bank came into force. As a condition of its accession to the OECD, Poland agreed to allow firms from OECD countries to open branches and representative offices in the insurance and banking sector starting in 1999. The government began privatizing the state telecommunications monopoly October 1998 and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Local telephone service licenses are being awarded, but interconnectability remains the domain of the state monopoly. The government allows foreign banks to open subsidiaries.

Standards, Testing, Labeling, and Certification: A primary Polish regulation which may adversely affect U.S. exports is a requirement for some 1400 products sold in Poland to obtain a safety "B" certificate from a Polish test center. This regulation was initially set to go into effect in 1995, but has been postponed each year since that time. It is expected that the immediate requirement for a new product to have the “B” certificate will continue to be waived until new legislation is passed. Currently, companies are required to have submitted an application for the “B” certificate in order to market the product, but are not required to have actually received the certificate from the test center. Under the "B" rule, the EU "CE" mark and ISO 9000 will accelerate the certification process. Poland would like to achieve a mutual recognition agreement with the EU, but this requires a new law on product liability, which has yet to be enacted. In the past, U.S. companies have complained about the complexity and slowness of the testing process as well as vague information on fees and procedures. However, recently these complaints have been fewer.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations (foreign sole proprietorships and partnerships are not allowed; the legal form requirement will remain through January 1, 1999). There remain some obstacles to foreign investment in certain "strategic sectors" such as mining, steel, defense, transport, energy, and telecommunications. Nonetheless, over the past year the government has begun privatization of telecommunications, opened one of the largest steel mills in Poland for tenders from private foreign investors and made progress on a defense industry restructuring plan which calls for the significant involvement of foreign investors.

Certain controls remain on foreign investment. Despite an attempt to raise the limit to 49 percent, broadcasting legislation still restricts foreign ownership to a 33 percent stake. Foreign stakes in air and maritime transport, fisheries, and long-distance telecommunications are capped at 49 percent. No foreign investment is currently allowed in international telecommunications or gambling. The government continues to work on auto assembly/manufacturing regulatory changes which would encourage investors to increase domestic content and move towards full manufacturing operations.

As a result of OECD accession, Poland allows foreign entities to purchase up to 4000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent of both the Defense and Agriculture Ministries. Consent is not automatic.

Government Procurement Practices: Poland's new government procurement law is modeled on the UN model procurement code and based on competition, transparency, and public announcement. It does not, however, cover most purchases by state-owned enterprises. Only for reasons of state security or national emergency are single source exceptions to the stated preference for unlimited tender allowed. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders viewed to be unfairly awarded. Since September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Poland has a harmonized tariff system, having signed the GATT customs valuation code in 1989. The customs duty code currently binding in Poland has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement, the FTA with Israel, Croatia, Latvia, Estonia and Lithuania, as well as GSP for developing countries grants firms from these areas certain tariff preferences over U.S. competitors.

Some U.S. companies have been critical of Polish customs' performance, citing long delays, indifference, corruption, and incompetent officials, as well as inconsistent application of customs rules. In an attempt to respond to the customs problems that have arisen since the opening of Poland's economy in 1989 a new Customs Law went into effect in January 1998. Despite this, problems remain, including the amount of paperwork required and the lack of electronic clearance procedures.

7. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code. Poland has eliminated past practices of tax incentives for exporters, but it provides for drawback levies on raw material imports from EU and CEFTA countries which are processed and reexported into finished products within thirty days. The sugar refining industry, coal industry, and a number of politically powerful state-owned enterprises continue to directly or indirectly receive production subsidies which result in lower export prices. Poland's policy of rolling-over unused WTO sugar subsidy allowances to be used in combination with current year allowances has been protested by the U.S. and others within the WTO. In response to decreased pork exports resulting from the Russian financial crisis, Poland recently introduced an export subsidy for pork.

Polish industry and exporters are critical of the government for not providing more support for export promotion. The one existing export insurance scheme has very limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts. It covers only one percent of Polish exports.

8. Protection of U.S. Intellectual Property

The government has made major strides in improving protection of intellectual property rights. The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law which offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, audio-visual works, and industrial patterns. Poland also adheres to the Berne Convention (Paris Text, 1971), the Rome Convention on Sound Recordings, and

TRIPS provisions within the WTO. Poland's 1993 Patent Law, which provided the first patent protection in Poland since 1939, has been criticized by the pharmaceutical industry for not providing adequate protection.

Much of the pirated or fake items available in Poland are imported from abroad (CDs from Bulgaria and Russia; hosiery from Italy) rather than being manufactured in Poland. Industry associations estimate 1996 levels of piracy in Poland to be: 20 percent in sound recordings; 10 percent in books and video, and 80 percent in software. In 1998, Polish sound recording producers began a public campaign against counterfeit recordings.

While enforcement has improved, especially after the enactment of the new Customs Law, some difficulties still exist. Prosecution remains difficult. Due to a lack of manpower and resources, Polish authorities often rely on rights holders to provide preliminary evidence of violations. In one important 1996 case, a large U.S.-based firm successfully defended several trademarks by employing local counsel. Poland remains on the “Special 301 Watch List” due to concerns over enforcement and the lack of enactment of 50 year protection for preexisting sound recordings as required by TRIPS.

9. Worker Rights

The Labor Code, which became effective June 1996, thoroughly redefined the rights and duties of employers and employees in more modern, free-market terms.

a. The Right of Association: Polish law guarantees all civilian workers, including military employees, police and frontier guards, the right to establish and join trade unions of their own choosing, the right to join labor federations and confederations, and the right to affiliate with international labor organizations. Independent labor leaders have reported that these rights are largely observed in practice.

b. The Right to Organize and Bargain Collectively: The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity. Labor leaders, however, reported numerous cases of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. Prohibition of Forced or Compulsory Labor: Compulsory labor, except for prisoners convicted of criminal offenses does not exist.

d. Minimum Age for Employment of Children: Polish law contains strict legal prescriptions over the conditions in which children may work. The State Labor Inspectorate has reported that increasing numbers of Polish children now work and that many employers violate labor rules by underpaying or paying them late.

e. Acceptable Conditions of Work: The large size of the gray economy and insufficient number of labor inspectors complicate enforcement of minimum wage requirements and minimum workers' health and safety standards. Enforcement is a problem of unclear jurisdiction.

f. Rights in Sectors with U.S. Investment: Observance of the five worker rights conditions in firms which have U.S. investment generally meets and can exceed those in comparable Polish firms. Over the last several years, there have been relatively few cases where Polish unions have charged managers of U.S.-based firms with violating Polish labor law; those that have arisen have been largely resolved. In cases where American companies purchase an existing Polish enterprise, unions usually continue to operate. There tend to be no unions, however, where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		699
Food & Kindred Products	249	
Chemicals & Allied Products	48	
Primary & Fabricated Metals	24	
Industrial Machinery and Equipment	19	
Electric & Electronic Equipment	(2)	
Transportation Equipment	-2	
Other Manufacturing	361	
Wholesale Trade		69
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		76
Other Industries		4
TOTAL ALL INDUSTRIES		1,204

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.